Desjardins Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2021

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

Canadian equities continued to appreciate over the second quarter, with the S&P/TSX Composite Index climbing 8.5% in Q2 (and 17.3% since the beginning of the year). Nearly every sector was up, but information technology (+23.0%) and energy (+14.0%) led the pack. With commodities rebounding and the trend favouring growth stocks, our portfolio posted solid absolute returns but couldn't keep up with the benchmark over the quarter.

We are continuing to bolster our position in Franco-Nevada (FNV), the world's largest royalty and streaming financing company, which boasts an asset portfolio over twice that of its nearest rival. FNV primarily finances mine exploration and development companies in exchange for royalties or streams based on future production.

Enbridge's growing challenges in achieving long-term growth due to greater regulatory obstacles prompted us to reduce our position. The stock recovered from the market drop caused by COVID but, for the time being, we believe that other companies in other sectors with more attractive risk-return profiles offer better investment opportunities.

Investment thesis

Our Canadian equity management strategy is focused on large cap blue chip equities and industry leaders that post solid dividends and continuous growth. We don't target cyclical industries, and we maintain significant diversification to avoid concentrations in sectors with exposure to commodity prices. Our diversification has improved thanks to investment in foreign corporations that pay dividends and are active in sectors not available in Canada. Moreover, we've demonstrated continuous growth, high returns, dominant positions on global or local markets and solid financial results in order to reduce financial risk. No changes were made to the investment thesis during the quarter.

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Securities that made headlines

Two key overweight positions took a downturn in Q2 due to declines by CN Rail (CNR) (-10%) and Manulife (-9%) in a growing market. CNR stumbled after announcing its acquisition of US rail company Kansas City Southern for approximately US$30 billion. The market is concerned about potential revenue synergies, given the size of the acquisition, the price paid and the integration risk. We're confident that CN's management team will be able to complete the acquisition but we're aware that the merger may not materialize. CNR is therefore trading at a discount compared to its counterparts, which is highly unusual. As the company's fundamentals are actually very healthy and showing improvement, we took advantage of the opportunity to strengthen our current position.

Manulife dropped in Q2 after a strong start to the year, likely due to a slight dip in 10-year government bonds. However, its fundamentals are very healthy despite low interest rates, and its management team is meeting its key objectives. Manulife stands out through its impressive presence in Asian markets with higher growth and profitability and through its wealth management division. During a recent Investor Day, the company stated its intention to limit its higher-risk ancillary activities to 10% to 15% of its earnings by 2025.

In terms of good news, we saw significant progress in two of our engineering securities, SNC (+20%) and WSP (+21%), as well as in Brookfield Asset Management (BAM) (+13%), with the latter two reaching unprecedented peaks. SNC and WSP have continued to take advantage of pent-up demand for infrastructure projects and will surely benefit from the $2 trillion infrastructure plan recently introduced in the United States. In addition, SNC's recent quarterly results offered encouraging signs that the unpleasant surprises linked to cost overruns are likely a thing of the past, leading us to believe that the company will generate positive cash flow for the year.

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Securities that made headlines (cont'd)

WSP recently completed its acquisition of Golder, a leading global environmental consulting firm. This sizeable purchase at the right price will boost the company's revenue by around 15% and should generate significant accretion. Lastly, BAM has continued to perform very well, benefiting from capital flows being directed to alternative assets (e.g., infrastructure, real estate, renewable energy, and private equity). The company's recent quarterly results showed no signs of letting up, with record levels of third-party investor capital, despite the belief by some that a potential hike in long-term interest rates would slow down its activities.

*CIFSC refers to Canadian Investment Funds Standards Committee. The CIFSC has the mandate to standardize the classification of mutual funds in Canada. http://www.cifsc.org/.